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AUTHOR Hunter, James; Howley, Craig B.
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ABSTRACT

This digest, which is based primarily on the 1989 ERIC/CRESS monograph entitled "Achievement of Equity in Capital Outlay Financing: A Policy Analysis for the States," by D. Thompson G. Stewart, D. Honeyman, and R. Wood, addresses possible solutions to the emerging problem of capital outlay financing, with special attention to facilities in rural areas. Construction and maintenance of school buildings have traditionally depended on local funding. But rural school districts, operating on some of the lowest revenue bases in the country, are often unsuccessful in raising property taxes to meet capital outlay needs. Also, the state-mandated reforms of recent years have placed an additional burden on local budgets, diverting possible resources from capital outlay financing. Recent court rulings have linked capital outlay financing to the established legal premises of adequacy and equity, and have implied the need to provide poor school districts with additional outside funds. State aid for capital outlay has been instituted in 28 states, ranging from full state funding to state or local building authorities, which often seek to involve private enterprise. All forms of such state aid have disadvantages related to loss of local control. Strong partnerships between state education agencies and local education agencies are vital to countering such disadvantages. This digest contains 10 references. (SV)

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ERIC DIGEST

Clearinghouse on Rural Education and Small Schools

March 1990

Capital Outlay: A Critical Concern in Rural Education

Digest EDO-RC-90-1

ALTHOUGH MANY other industrialized countries rely on national schemes for funding public schools, the United States has traditionally relied on the spirit of local initiative (Counts, 1930). This tradition is perhaps nowhere more evident than in provisions for the construction and maintenance of school buildings (Education Writers Association, 1989).

State and federal funding sources have, in many states, provided substantial aid for operating expenses—teachers' salaries, transportation, and aid for programs that provide instructional services for students with special needs. These funding sources, however, have historically provided less assistance for school construction (Deavers & Brown, 1985; Thompson, Stewart, Honeyman, & Wood, 1989). This Digest addresses possible solutions to the emerging problem of capital outlay financing, with special attention to facilities in rural areas.

Facility needs in the context of rural economics

Although not all rural areas are poor, many rural districts must operate on some of the lowest revenue bases in the country. In general, studies have shown that rural economies specialize in natural resource extraction (for example, farming, mining, logging) or routine (as opposed to "high-tech") manufacturing (Bender et al., 1985). Incomes produced by such an economic base tend to be comparatively low (Deavers & Brown, 1985; McGranahan, 1987). Since income levels determine the local ability to pay taxes, proposals to raise property taxes to meet the capital outlay needs of rural school districts are often unsuccessful.

In addition, during the last decade local budgets for education have felt the effect of increased demands for new or expanded services, demands that strain local capacity to provide the desired services (Brizius, Foster, & Patton, 1988). Meeting these demands, in turn, affects the capacity of local education agencies to maintain existing buildings or construct new ones (Thompson et al., 1989). Nationwide, existing school buildings are deteriorating faster than they can be replaced, remodeled, or even adequately maintained (Education Writers Association, 1989).

Historically inadequate (and allegedly inequitable) financial resources in rural districts make concern over the financing of capital outlay (capital funds for maintaining, remodeling, or constructing school facilities) just as acute as it is in many inner-city school districts (Thompson et al., 1989). In persistently poor rural areas (see Bender et al., 1985, pp. 12-15), in fact, the condition of facilities may be worse than it is elsewhere.

Reform, equity, and the condition of school facilities

In recent years state-mandated reforms have placed additional requirements for the provision of educational services on LEAs. Increases in state aid accompanied the reforms in many states, but could not cover all costs, especially in impoverished rural areas (Brizius et al., 1988). Wealthy districts were able to raise additional funds locally, but rural districts have been less successful. Many impoverished rural districts, in fact, may now be devoting larger proportions of their budgets to operating expenses in order to implement state-mandated reforms (Brizius et al., 1988).

In the fray over which reforms to implement in earnest in rural districts, and how to manage them, the issue of facilities was of minor concern. As a result, disparities between the quality of facilities in LEAs within the various states have widened (Thompson et al., 1989).

The principles of wealth neutrality that inform modern school finance decisions have helped equalize the distribution of available resources for operating expenses, to different degrees in the various states. The same observation cannot be made with respect to capital outlay financing. The local property tax still strongly influences the quality of school buildings in many states.

Adequacy and equity

For the past 20 years, U. S. court decisions have been guided by the interrelated premises of adequacy and equity when ruling on public school finance matters. These concepts will almost certainly be used in legal evaluations of the issue of capital outlay.

Adequacy is the availability of resources sufficient to carry out mandated educational goals, whereas equity refers to the just distribution of available resources (which, in themselves, may or may not be adequate). Thompson and colleagues (1989) maintain that the issue of equity is moot if available resources are inadequate to carry out mandated educational goals. That is, adequacy is a prior condition for the achievement of educational equity.

This principle requires that resources must exist at a minimum level before the issue of what is equitable can be determined. The achievement of equity is unlikely, in this view, if the various funding sources do not first provide resources sufficient, in general, to serve the needs of children in all the state's districts. The achievement of adequacy may be difficult, but the conditions of its evaluation are often specified in state laws and regulations.

Equity is a comparatively more subjective goal than adequacy. Evaluating its achievement entails selection of a suitable frame of reference (Berne & Stiefel, 1984; Thompson et al., 1989). Moreover, as Alexander (1982) implies, this frame of reference may well be a matter of debate among those who dispense funds (federal, state, and local governments) and those who receive them (state and local education agencies).

Achieving adequacy and equity in capital outlay financing

Despite chronic concerns about how LEAs have funded their facilities, equity reform for many years was felt to apply only to

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operating expenses (Thompson et al., 1989). In 1979, however, the West Virginia State Supreme Court ruled on the inadequacy of local property wealth to serve as the basis for funding school buildings. The ruling also cited the integral role facilities play in providing a good education (*Pauley v. Kelly*, 1979).

Rulings such as this imply the need to secure funds from outside the LEA. The principal mechanisms available to redistribute available resources in the pursuit of equity are based on three considerations:

1. Poor districts should receive outside funds, on the theory that residency should not deprive students of equal access to educational resources.
2. Ratios set for per-pupil funding should be adjusted upward in poor districts, if necessary, to counteract the effects of revenue imbalance.
3. Tax schedules should ensure that taxpayers residing in impoverished areas will not bear a disproportionately heavy tax load.

Thompson and colleagues (1989) maintain that continued reliance on local property wealth will jeopardize the degree to which rural LEAs can finance the capital outlays desperately needed to improve school facilities. According to these observers, 28 states have instituted true grant-in-aid programs, while the remaining 22 have left individual districts to their own devices. Current forms of state assistance fall into six categories (see Thompson et al., 1989, pp. 10-19 for detailed descriptions), ranging from full state funding—under which the state funds all capital outlay costs—to state or local building authorities, which often seek to involve private enterprise.

Ensuring local control

Disadvantages common to all these methods involve loss of local control, and strong partnerships between state education agencies and LEAs are vital to countering these disadvantages (Thompson et al., 1989). To implement such partnerships, Thompson and colleagues (1989, pp. 84-86) recommend that (1) funds be provided for both existing and new debt service; (2) funds be provided to meet special needs (for example, sparsity, growth, and emergencies); (3) such special needs be given priority; (4) orderly planning by state and local partnerships drive the funding of new projects; and (5) states consider establishing several types of funds to assist LEAs in meeting their capital outlay needs.

What might the future hold?

Many school buildings have already fallen into disrepair, and many new ones are needed (Education Writers Association, 1989). Equally clear is the fact that courts are beginning to link capital outlay financing to the established legal premises of adequacy and equity. Moreover, many analysts believe that, in the 22 states that provide no funding assistance of any sort for facility expenditures, adequacy is lacking. It follows, then, that equity in these states is also a substantial problem.

Policymakers, in particular, are advised to take note of these trends by Thompson and colleagues (1989, p. 1): "Recent litigation suggests...that capital outlay is an issue that will be addressed in the courts if it is not effectively addressed by state policy." Observers believe that impoverished school districts, both urban and rural, can benefit from legal criteria that move toward neutralizing the effect of local property wealth in the comparatively neglected domain of capital outlay financing. As state-level concern becomes more evident in the states, the fortunes of rural school districts could improve.

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Prepared by James Hunter, free-lance journalist, Atlanta, GA, and Craig Howley, ERIC/CRESS, Charleston, WV.

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